

PERAC AUDIT REPORT



MWRA Contributory Retirement System

JAN. 1, 2003 - DEC. 31, 2005



TABLE OF CONTENTS

Letter from the Executive Director	1
Explanation of Findings and Recommendations.....	2
Statement of Ledger Assets and Liabilities.....	4
Statement of Changes in Fund Balances	5
Statement of Receipts.....	6
Statement of Disbursements.....	7
Investment Income	8
Schedule of Allocation of Investments Owned.....	9
Supplementary Investment Regulations	10
<u>Notes to Financial Statements:</u>	
Note 1 - Summary of Plan Provisions	12
Note 2 - Significant Accounting Policies	19
Note 3 - Supplementary Membership Regulations.....	20
Note 4 - Administration of the System	23
Note 5 - Actuarial Valuation and Assumptions.....	24
Note 6 - Membership Exhibit.....	25

PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

DOMENIC J. F. RUSSO, *Chairman* | A. JOSEPH DeNUCCI, *Vice Chairman*
KENNETH J. DONNELLY | JAMES M. MACHADO | DONALD R. MARQUIS | THOMAS TRIMARCO

JOSEPH E. CONNARTON, *Executive Director*

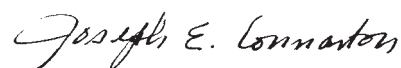
December 13, 2006

The Public Employee Retirement Administration Commission has completed an examination of the Massachusetts Water Resources Authority Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2003 to December 31, 2005. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission, in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission, with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiners James Sweeney and James Ryan who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton
Executive Director



EXPLANATION OF FINDINGS AND RECOMMENDATIONS

I. Appropriations:

The Massachusetts Water Resources Authority underpaid its required annual appropriations by \$378,613 in FY 2005 and \$397,452 in FY 2006. The Authority made an additional payment on June 24, 2004 (beyond that required for FY04) of \$1,193,582. This pre-payment was the Authority's justification for not paying the full amounts in the subsequent fiscal years.

Recommendation:

The MWRA and the Retirement Board must work together to assess the impact of pre-payments on the appropriation schedule. If the Authority desires to make early payments beyond the amounts calculated by the Board's actuary and the PERAC actuary to reduce future years' appropriations, the Board should request that its actuary and PERAC recalculate the appropriation amounts, after the Board receives the additional monies.

Board Response:

The impact of the prepayment by the Authority has worked itself through the actuary calculation updated for FY07. If future prepayments are made, the Retirement Board will work with the Authority and PERAC to eliminate any confusion as to the purpose and handling of such prepayments.

2. Annuity Reserve Fund Interest:

The November 2006 follow-up audit cited an unresolved finding that year 2000 Annuity Reserve Fund interest must be corrected to reflect the timely recognition of member retirements in the actual month of retirement. Furthermore, the issue was also evident during 2003 and 2004. Retirements were recorded at year end, instead of during the month of retirement. This practice results in an inaccurate total for annual Annuity Reserve Fund interest.

Recommendation:

Pursuant to G.L. c.32, § 22 (2) (a), member balances should be transferred from the Annuity Savings Fund to the Annuity Reserve Fund when retirement allowances become effective. Based on the MWRA Retirement System's recalculation of the Annuity Reserve Fund interest for the years noted above, the System must record an adjusting journal entry to increase the Annuity Reserve Fund by \$21,174.81. The offsetting general ledger account is the Pension Reserve Fund.

Board Response:

The Retirement System's present policy is to transfer from the Annuity Savings Fund to the Annuity Reserve Fund when the retirement allowance becomes effective. The impact of all prior report findings have been corrected with the proper funds being transferred and the corresponding journal entries being prepared and recorded.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

Membership:

PERAC auditors sampled members' deduction rates to determine that correct percentages are being withheld and that the additional 2% deduction is withheld from those members who make over \$30,000 and were hired after January 1, 1979. It was observed that members receive separate checks for longevity and automobile allowances. For the pay period when more than one pay check is issued, the Board is receiving less than the required 2% additional retirement deduction. The payroll department annualizes each earnings payment based on \$30,000 annually rather than combining regular earnings. The additional 2% on earnings over \$30,000 is not being collected when more than one pay check is generated per pay period.

Recommendation:

The Board must comply with G.L. c. 32, § 22(1)(b), and PERAC Memo #43/1999, which directs that the additional 2% deductions be withheld on total regular income over \$30,000 on a per pay-period basis. The payroll system should combine all earnings subject to retirement deductions for each member from all payroll sources. This would provide the proper basis for calculating the additional 2% deduction accurately and consistently.

Board Response:

The Authority has implemented a computer program change that combines all regular compensation subject to the additional 2% retirement deduction for each member of the System on a per-pay period basis and are now in compliance with G.L. c. 32, § 22(1)(b).

FINAL DETERMINATION:

PERAC Audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding all findings.

STATEMENT OF LEDGER ASSETS AND LIABILITIES

AS OF DECEMBER 31,			
	2005	2004	2003
Assets:			
Cash	\$7,770,387	\$1,442,388	\$1,456,085
Short Term Investments	0	795,621	1,152,093
Equities	38,666,922	28,505,796	23,595,028
Pooled Domestic Equity Funds	39,122,321	42,894,162	40,257,431
Pooled International Equity Funds	32,010,553	27,102,375	16,507,492
Pooled Domestic Fixed Income Funds	64,891,430	62,649,602	57,972,203
Pooled Alternative Investment Funds	1,249,202	1,075,167	1,102,916
Pooled Real Estate Funds	10,052,574	10,627,348	11,900,863
PRIT Cash Fund	0	0	0
PRIT Core Fund	1,681,255	1,498,509	1,314,401
Interest Due and Accrued	11,837	1,650	902
Accounts Receivable	22,138	1,322	44,824
Accounts Payable	(444,348)	(10,222)	(26,921)
Total	<u>\$195,034,272</u>	<u>\$176,583,717</u>	<u>\$155,277,317</u>
Fund Balances:			
Annuity Savings Fund	\$72,688,229	\$66,344,852	\$63,739,197
Annuity Reserve Fund	12,495,660	12,837,416	10,026,124
Pension Fund	23,010,612	23,286,141	22,728,968
Military Service Fund	5,257	5,226	5,194
Expense Fund	0	0	0
Pension Reserve Fund	86,834,514	74,110,082	58,777,834
Total	<u>\$195,034,272</u>	<u>\$176,583,717</u>	<u>\$155,277,317</u>

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2003)	\$59,249,052	\$9,629,404	\$22,905,659	\$5,143	\$0	\$30,034,195	\$121,823,453
Receipts	7,008,653	289,336	3,000,865	51	374,823	28,741,724	39,415,453
Inter Fund Transfers	(985,873)	983,958	0	0	0	1,915	0
Disbursements	(1,532,635)	(876,574)	(3,177,556)	0	(374,823)	0	(5,961,589)
Ending Balance (2003)	63,739,197	10,026,124	22,728,968	5,194	0	58,777,834	155,277,317
Receipts	7,082,678	345,976	4,500,666	31	385,180	15,332,248	27,646,778
Inter Fund Transfers	(3,636,185)	3,636,185	0	0	0	0	0
Disbursements	(840,837)	(1,170,868)	(3,943,493)	0	(385,180)	0	(6,340,378)
Ending Balance (2004)	66,344,852	12,837,416	23,286,141	5,226	0	74,110,082	176,583,717
Receipts	7,451,192	374,438	4,136,119	32	1,764,812	12,752,781	26,479,375
Inter Fund Transfers	(355,149)	383,498	0	0	0	(28,349)	0
Disbursements	(752,667)	(1,099,693)	(4,411,647)	0	(1,764,812)	0	(8,028,820)
Ending Balance (2005)	<u>\$72,688,229</u>	<u>\$12,495,660</u>	<u>\$23,010,612</u>	<u>\$5,257</u>	<u>\$0</u>	<u>\$86,834,514</u>	<u>\$195,034,272</u>

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2005	2004	2003
Annuity Savings Fund:			
Members Deductions	\$6,514,846	\$6,030,343	\$6,064,011
Transfers from Other Systems	158,954	367,324	30,004
Member Make Up Payments and Re-deposits	376,569	315,862	345,659
Member Payments from Rollovers	4,607	0	0
Investment Income Credited to Member Accounts	<u>396,217</u>	<u>369,149</u>	<u>568,979</u>
Sub Total	<u>7,451,192</u>	<u>7,082,678</u>	<u>7,008,653</u>
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	<u>374,438</u>	<u>345,976</u>	<u>289,336</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems	643,353	259,290	364,322
Received from Commonwealth for COLA and Survivor Benefits	0	0	12,489
Pension Fund Appropriation	<u>3,492,766</u>	<u>4,241,375</u>	<u>2,624,054</u>
Sub Total	<u>4,136,119</u>	<u>4,500,666</u>	<u>3,000,865</u>
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	0	0	0
Investment Income Credited to the Military Service Fund	<u>32</u>	<u>31</u>	<u>51</u>
Sub Total	<u>32</u>	<u>31</u>	<u>51</u>
Expense Fund:			
Expense Fund Appropriation	0	0	0
Investment Income Credited to the Expense Fund	<u>1,764,812</u>	<u>385,180</u>	<u>374,823</u>
Sub Total	<u>1,764,812</u>	<u>385,180</u>	<u>374,823</u>
Pension Reserve Fund:			
Federal Grant Reimbursement	0	0	0
Pension Reserve Appropriation	0	0	0
Interest Not Refunded	9,786	8,783	13,631
Miscellaneous Income	0	0	33
Excess Investment Income	<u>12,742,995</u>	<u>15,323,465</u>	<u>28,728,061</u>
Sub Total	<u>12,752,781</u>	<u>15,332,248</u>	<u>28,741,724</u>
Total Receipts	<u>\$26,479,375</u>	<u>\$27,646,778</u>	<u>\$39,415,453</u>

STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2005	2004	2003
Annuity Savings Fund:			
Refunds to Members	\$520,733	\$840,837	\$934,306
Transfers to Other Systems	<u>231,934</u>	<u>0</u>	<u>598,329</u>
Sub Total	<u>752,667</u>	<u>840,837</u>	<u>1,532,635</u>
Annuity Reserve Fund:			
Annuities Paid	1,099,693	1,170,868	876,574
Option B Refunds	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>1,099,693</u>	<u>1,170,868</u>	<u>876,574</u>
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	3,534,183	3,117,456	2,439,702
Survivorship Payments	94,644	97,359	448,272
Ordinary Disability Payments	209,609	235,031	84,548
Accidental Disability Payments	510,041	445,521	193,046
3 (8) (c) Reimbursements to Other Systems	<u>63,169</u>	<u>48,126</u>	<u>11,989</u>
Sub Total	<u>4,411,647</u>	<u>3,943,493</u>	<u>3,177,556</u>
Military Service Fund:			
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:			
Board Member Stipend	0	0	0
Salaries	317,501	229,598	228,586
Legal Expenses	23,967	22,573	16,603
Medical Expenses	40	0	0
Travel Expenses	11,786	15,288	15,857
Administrative Expenses	58,498	13,477	6,726
Furniture and Equipment	0	849	0
Management Fees	1,182,448	0	0
Custodial Fees	110,950	0	0
Consultant Fees	52,443	96,578	107,052
Fiduciary Insurance	<u>7,179</u>	<u>6,817</u>	<u>0</u>
Sub Total	<u>1,764,812</u>	<u>385,180</u>	<u>374,823</u>
Total Disbursements	<u>\$8,028,820</u>	<u>\$6,340,378</u>	<u>\$5,961,589</u>

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2005	2004	2003
Investment Income Received From:			
Cash	\$109,302	\$42,588	\$2,286
Short Term Investments	0	0	36,382
Fixed Income	0	0	1,427,425
Equities	498,776	421,454	409,280
Pooled or Mutual Funds	3,708,982	3,041,199	3,821,767
Commission Recapture	17,520	3,863	0
Total Investment Income	<u>4,334,580</u>	<u>3,509,105</u>	<u>5,697,139</u>
Plus:			
Realized Gains	40,952,262	2,683,402	674,520
Unrealized Gains	13,978,502	11,692,474	25,822,185
Interest Due and Accrued on Fixed Income Securities - Current Year	<u>11,837</u>	<u>1,650</u>	<u>902</u>
Sub Total	<u>54,942,601</u>	<u>14,377,526</u>	<u>26,497,607</u>
Less:			
Paid Accrued Interest on Fixed Income Securities	0	0	(300,371)
Realized Loss	(1,479,992)	(439,319)	449,267
Unrealized Loss	(42,517,044)	(88,625)	(1,224,077)
Interest Due and Accrued on Fixed Income Securities - Prior Year	<u>(1,650)</u>	<u>(902)</u>	<u>(338,335)</u>
Sub Total	<u>(43,998,686)</u>	<u>(528,847)</u>	<u>(1,413,516)</u>
Net Investment Income	<u>15,278,494</u>	<u>17,357,784</u>	<u>30,781,231</u>
Income Required:			
Annuity Savings Fund	396,217	369,149	568,979
Annuity Reserve Fund	374,438	345,976	289,336
Military Service Fund	31	31	51
Expense Fund	<u>1,764,812</u>	<u>1,319,163</u>	<u>1,194,803</u>
Total Income Required	<u>2,535,499</u>	<u>2,034,319</u>	<u>2,053,170</u>
Net Investment Income	<u>15,278,494</u>	<u>17,357,784</u>	<u>30,781,231</u>
Less: Total Income Required	<u>2,535,499</u>	<u>2,034,319</u>	<u>2,053,170</u>
Excess Income To The Pension Reserve Fund	<u>\$12,742,995</u>	<u>\$15,323,465</u>	<u>\$28,728,061</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2005			
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED
Cash	\$7,770,387	4.0%	100%
Equities	38,666,922	19.8%	50%
Pooled Domestic Equity Funds	39,122,321	20.0%	
Pooled International Equity Funds	32,010,553	16.4%	15%
Pooled Domestic Fixed Income Funds	64,891,430	33.2%	
Pooled Alternative Investment Funds	1,249,202	0.6%	5%
Pooled Real Estate Funds	10,052,574	5.1%	10%
PRIT Cash Fund	0	0.0%	100%
PRIT Core Fund	1,681,255	0.9%	100%
Grand Total	<u>\$195,444,645</u>	<u>100.0%</u>	

For the year ending December 31, 2005, the rate of return for the investments of the Massachusetts Water Resources Authority Retirement System was 8.60%. For the five-year period ending December 31, 2005, the rate of return for the investments of the Massachusetts Water Resources Authority Retirement System averaged 6.17%. For the twenty-one year period ending December 31, 2005, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Massachusetts Water Resources Authority Retirement System was 8.43%.

SUPPLEMENTARY INVESTMENT REGULATIONS

The Massachusetts Water Resources Authority Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on:

February 28, 2000

16.08 The Massachusetts Water Resources Authority Retirement Board may invest in the Loomis Sayles Investment Trust Small Company Growth Fund. This fund has the same investment strategy and management team as a previously approved separate account. The purpose of the change is to reduce administrative and custodial expenses.

February 27, 1998

20.07(9) Commingled real estate shall not exceed 10% of the total book value of the portfolio at the time of purchase provided that:

(a) the retirement board does not participate in the selection of personnel responsible for making real estate investments and should this be required, prior to any participation by the board, the board shall contact PERAC to determine the appropriate course of action;(b) such personnel retain authority in the decision making process, and (c) should an investment in real estate result in the direct ownership of real estate or mortgage indebtedness, such shall be permitted only until such time as divestiture is prudent.

September 7, 1995

840 CMR 21.00: Prohibited Investments

(3) Future Contracts other than as follows:

(a) Currency Futures, Calls and Forward Contracts may be written against securities in the international portfolio by an investment advisor registered under the Investment Advisors Act of 1940 and who has been granted a waiver from PERAC for international investments.

(b) Currency Futures, calls and Forward Contracts may be written against securities in the international portfolio to a maximum of fifty percent (50%) of the international portfolio non-dollar holdings at market value. Speculative currency positions unrelated to underlying portfolio holdings are strictly prohibited.

August 17, 1995

20.09(1) Venture capital investments shall not exceed 3% of the total market value of the portfolio at the time of the investment provided that in any system with assets in excess of nineteen million dollars, venture capital investments may be made up to an amount equal to 5% of the total market value of the portfolio at the time of investment. The board may make initial venture capital investments up to \$2,400,000 provided that no additional investments in venture capital are made that would be in excess of 5% of the total market value of the portfolio. Venture capital investments shall be considered a separate asset class, and provided further that:

(a) the board does not participate in the selection of the personnel responsible for making venture capital investments or otherwise exercise discretion in business affairs and should this be required, prior to any participation by the board, the board shall consult with PERAC to determine the appropriate course of action;

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

(b) such personnel retain authority in the decision making process, and(c) should an investment in venture capital result in the direct ownership of securities, such shall be permitted only until such time as divestiture is prudent.

20.09(2) Venture capital investments shall only be made in venture capital funds operated by venture capital firms having their principal places of business in the United States.

20.09(3) All venture capital investment shall be made in companies which have their principal places of business in the United States.

July 14, 1995

16.02(4) The board may employ a custodian bank and may charge such expenses against earned income from investments provided that such expenses shall not exceed in any one-year 08% of the value of the fund.

20.03(1) Equity investments shall not exceed 50% of the total portfolio valued at market including international equities which shall not exceed 15% of the total portfolio valued at market.

20.03(2) At least 35% but no more than 80% of the total portfolio valued at market shall consist of fixed income investments with a maturity of more than one year.

20.07(9) Commingled real estate shall not exceed 10% of the total book value of the portfolio at the time of purchase provided that:

(a) the retirement board does not participate in the selection of personnel responsible for making real estate investments and should this be required, prior to an participation by the board, the board shall consult with PERAC to determine the appropriate course of action;

(b) such personnel retain authority in the decision making process, and

(c) should an investment in real estate result in the direct ownership of real estate or mortgage indebtedness, such shall be permitted only until such time as divestiture is prudent.

March 18, 1993

20.04(1) United States based corporations and equities of corporations.

20.07(5) Equity investments shall be made only in securities listed on a United States stock exchange, traded over the counter in the United States, or listed and traded on a foreign exchange.

June 16, 1988

20.07(6) Sales of equity investments shall not exceed 200% of the average market value of all equity holdings in any twelve-month period.

NOTES TO FINANCIAL STATEMENTS

NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Massachusetts Water Resources Authority Retirement System member unit employees deemed eligible by the retirement board.

ADMINISTRATION

There are 106 contributory Retirement Systems for public employees in Massachusetts. Each system is governed by a retirement board, and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements, and a uniform accounting and funds structure for all systems.

PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal, or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 3 classes of membership in the Retirement System:

Group 1:

General employees, including clerical, administrative, technical, and all other employees not otherwise classified.

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of \$30,000.

RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire at age 65. There is no mandatory retirement age for employees in Group 1.

SUPERANNUATION RETIREMENT

A member is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2

NOTES TO FINANCIAL STATEMENTS (Continued)

AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year average salary. For veterans as defined in G.L. c. 32, s. 1, there is an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

- Salary is defined as gross regular compensation.
- Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last three years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age, but the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.

DEFERRED VESTED BENEFIT

A participant who has completed 10 or more years of creditable service is eligible for a deferred vested retirement benefit. Elected officials and others who were hired prior to 1978 may be vested after 6 years in accordance with G.L. c. 32, s. 10.

The participant's accrued benefit is payable commencing at age 55, or the completion of 20 years, or may be deferred until later at the participant's option.

WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. Employees who first become members on or after January 1, 1984, may receive only limited interest on their contributions if they voluntarily terminate their service. Those who leave service with less than 5 years receive no interest; those who leave service with greater than 5 but less than 10 years receive 50% of the interest credited.

NOTES TO FINANCIAL STATEMENTS (Continued)

DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

ORDINARY DISABILITY

Eligibility: Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, s. 6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching “maximum age”.

Retirement Allowance: Equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

ACCIDENTAL DISABILITY

Eligibility: Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$611.28 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member’s retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution.

NOTES TO FINANCIAL STATEMENTS (Continued)

ACCIDENTAL DEATH

Eligibility: Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$312 per year, per child, payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries resulting in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death.

In addition, an eligible family member may receive a one time payment of \$100,000.00 from the State Retirement Board.

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000.

DEATH IN ACTIVE SERVICE

Allowance: An immediate allowance equal to that which would have been payable had the member retired and elected Option C on the day before his or her death. For death occurring prior to the member's superannuation retirement age, the age 55 benefit rate is used. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is \$3,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of \$1,440 per year for the first child, and \$1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

NOTES TO FINANCIAL STATEMENTS (Continued)

COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. The first \$12,000 of a retiree's total allowance is subject to a cost-of-living adjustment. The total Cost-of-Living adjustment for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

Option A: Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

Option B: A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

Option C: A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who remains unmarried for a member whose retirement becomes effective on or after February 2, 1992, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up") based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

NOTES TO FINANCIAL STATEMENTS (Continued)

ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Massachusetts Water Resources Authority Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on:

April 16, 1993

FULL TIME EMPLOYEES

Membership in the MWRA Retirement System is mandatory for all employees who are regularly employed on a full time basis and whose employment commences prior to the attainment of age 65.

PERMANENT PART TIME EMPLOYEES

Part time employees working a minimum of 19 hours per week must become members of the MWRA Retirement System.

Creditable service shall be calculated on a pro rated basis as it relates to a full time position.**

****DEFINITION:** A work day is based on a seven and one half (7 1/2) hour period of employment in a thirty-seven and one half (37 1/2) hour week.

PART TIME EMPLOYEES

Who work less than 19 hours per week shall not become members of the MWRA Retirement System.

INTERNS/CO-OPS

Internship is limited to 1462 hours, which is equivalent nine months for full time and can be spread out to twelve months for part time. Interns/Co-Ops will only be allowed to work one internship/co-op at the MWRA. Interns/Co-Ops shall not become members of the MWRA Retirement System.

CONTRACT EMPLOYEES

Hired to perform a specific set of duties for a limited time (Less than 1 year); that will perform tasks above the capability or experience level of existing personnel; or hired to fulfill essential duties when coverage by existing staff is not feasible due to vacation schedules, illness, job vacancy, special projects, etc. Contract employees shall not be eligible for membership in the MWRA Retirement System.

CONSULTANTS

(Fee For Services) Hired to perform specialized services for a limited time that are beyond the expertise or capability of existing personnel. Consultants shall not be eligible for membership in the MWRA Retirement System.

ON CALL EMPLOYEES

Employees hired to fulfill the temporary clerical/other needs of the MWRA. "On call" employees are hired on a "annual contract" basis, (within on notice termination clause for both parties), that commences on the date of hire and ends on the one year anniversary of the date of hire. The "On Call" program employees shall not be eligible for membership in the MWRA Retirement System.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

TEMPORARY, SEASONAL EMPLOYEES

Employees hired to perform an assignment that is not of a continuing nature during a specific period of time. Temporary, seasonal employees shall not be eligible for membership in the MWRA Retirement System.

ON CALL, TEMPORARY INTER/CO-OP AND PART TIME EMPLOYEES

Who become full time employees may be eligible to “buy back” creditable service which was earned while at less than part time, (19 hours per week and therefore ineligible for membership in the MWRA Retirement System); by the discretion and eventual vote of the Retirement Board provided that creditable service shall be granted based on actual service rendered. Effective April 15, 1993, all new employees classified not full time and thus not eligible to become members of the MWRA Retirement System, must contribute to the alternative defined contribution retirement plan system.

September 4, 1990:

PERMANENT PART TIME EMPLOYEES

An employee who is employed at least 18.75 or 20 hours per week on a permanent basis shall become a member of the MWRA Retirement System.

INTERNS/CO-OPS, SEASONAL, ON CALL TEMPORARIES

An Intern/Coop, Seasonal or On Call Temporary employee shall not be allowed membership into the MWRA Retirement System until they are permanently employed. Upon becoming a member, they will be allowed to make payment toward creditable service for the time employed in that capacity.

CONTRACTUAL (MWRA Employment Contract)

A contractual employee of the MWRA shall become a member of the MWRA Retirement System if later permanently employed. Upon becoming a member, they will be allowed to make payment toward creditable service for the time worked in that capacity.

June 2, 1987:

MAKE-UP PAYMENTS

Employees may request, in writing, permission to make-up payments for their previous employment if the retirement system from which they were previously employed is established within the provisions of M.G.L. Chapter 32. Each employee requesting permission to make-up payments for their previous employment shall provide the Retirement System with a verified list of salaries, earned by them, by calendar year, not including any overtime or bonuses, so that a make-up payment can be calculated. Make-up payments consist of regular contributions plus interest received at the time of a refund plus interest the employee's account would have earned had they not received a refund. Employees of a temporary nature found to be ineligible for membership in a governmental unit covered under Chapter 32 may purchase past service upon becoming a permanent employee. The purchase or buy back of prior creditable service must:

l) Be paid in one lump sum at any time prior to the day of retirement.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

OR

2) Be paid in annual periodic payments subject to all of the following conditions:

A. Annual periodic payments must not exceed 5 years.

B. Each annual periodic payment must not be less than \$1,000 except for the final payment.

C. Each annual periodic payment must be received by the Retirement System in the month of June or July.

D. Annual periodic payments must begin within two years of employ at the Massachusetts Water Resources Authority and within three years of employ if hired prior to May 15, 1987.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a three person Board of Retirement consisting of the Secretary of the Authority who shall be a member ex-officio, a second member appointed by the governing authority, a third member who shall be elected by the members in or retired from the service of such system. Legislation passed in 2006 will bring the Board to a five member Board.

Ex-officio Member: Joseph A. MacRitchie, Esq.

Appointed Member: Joseph F. McGann Term Expires: 6/30/09

Elected Member: James M. Fleming, Esq. Term Expires: 6/30/07

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:)	
Ex-officio Member:)	\$50,000,000
Elected Member:)	Amity Insurance Agency
Appointed Member:)	
Staff Employee:)	

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by Buck Consultants as of January 1, 2005.

The actuarial liability for active members was	\$111,849,520
The actuarial liability for retired members was	<u>60,662,216</u>
The total actuarial liability was	172,511,736
System assets as of that date were (actuarial value)	<u>172,511,736</u>
The unfunded actuarial liability was	<u>\$0</u>
The ratio of system's assets to total actuarial liability was	100.0%
As of that date the total covered employee payroll was	\$65,789,878

The normal cost for employees on that date was 8.55% of payroll

The normal cost for the employer was 5.53% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.00% per annum

Rate of Salary Increase: Varies by service

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2005

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2005	\$172,511,736	\$172,511,736	\$0	100.0%	\$65,789,878	0.0%
1/1/2003	\$146,188,144	\$146,188,144	\$0	100.0%	\$66,710,911	0.0%
1/1/2002	\$141,169,108	\$141,169,108	\$0	100.0%	\$66,321,556	0.0%
1/1/1999	\$96,318,000	\$96,318,000	\$0	100.0%	\$66,782,000	0.0%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Retirement in Past Years										
Superannuation	5	7	11	12	15	18	82	14	214	5
Ordinary Disability	0	0	0	0	2	0	1	0	9	0
Accidental Disability	1	0	2	3	2	2	1	1	20	0
Total Retirements	6	7	13	15	19	20	84	15	243	5
Total Retirees, Beneficiaries and Survivors	23	33	49	64	94	112	194	193	256	252
Total Active Members	1,498	1,538	1,469	1,451	1,501	1,312	1,230	1,205	1,153	1,169
Pension Payments										
Superannuation	\$169,174	\$251,817	\$409,577	\$491,843	\$688,056	\$808,680	\$1,742,768	\$2,439,702	\$3,117,456	\$3,534,183
Survivor/Beneficiary Payments	5,880	11,434	18,481	37,582	79,624	85,898	78,982	448,272	97,359	94,644
Ordinary Disability	0	0	0	0	673	72,434	67,162	84,548	235,031	209,609
Accidental Disability	44,241	46,929	38,294	36,132	98,009	298,018	307,945	193,046	445,521	510,041
Other	<u>0</u>	<u>2,764</u>	<u>278</u>	<u>6,654</u>	<u>23,973</u>	<u>21,811</u>	<u>16,285</u>	<u>11,989</u>	<u>48,126</u>	<u>63,169</u>
Total Payments for Year	<u>\$219,295</u>	<u>\$312,944</u>	<u>\$466,630</u>	<u>\$572,211</u>	<u>\$890,335</u>	<u>\$1,286,841</u>	<u>\$2,213,142</u>	<u>\$3,177,556</u>	<u>\$3,943,493</u>	<u>\$4,411,647</u>

PERAC

Five Middlesex Avenue | Third Floor
Somerville, MA | 02145

Ph: 617.666.4446 | Fax: 617.628.4002

TTY: 617.591.8917 | Web: www.mass.gov/perac